



DEFENSE BUSINESS PRACTICE IMPLEMENTATION BOARD

**Report to the Senior Executive Council,
Department of Defense**

SUPPLY CHAIN/ PERFORMANCE-BASED LOGISTICS TASK GROUP

Report FY03-4

- **Recommendations related to the continued implementation of Performance-Based Logistics (PBL) in the Department of Defense**
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Defense Business Practice Implementation Board

October 15, 2003

SUPPLY CHAIN/PERFORMANCE-BASED LOGISTICS TASK GROUP REPORT

TASK

This DBB Task Group was formed to support efforts by the Department of Defense (DoD) as expressed in the Quadrennial Defense review to “compress the supply chain and improve readiness for major weapon systems and commodities.” Specifically, the Task Group was asked to describe private sector best practices used in managing supply chain partnering relationships and propose recommendations on how to apply such practices to the supply chain processes used by DoD. This report represents the findings and the advice of the Defense Business Practice Implementation Board (DBB) on this topic.

The Terms of Reference (TOR) assigning this task to the Board proscribed the following specific deliverables:

1. Describe key success factors that produce a highly effective supply chain partnering relationship in the private sector. Description should briefly describe how the services are contracted, managed, and what constitutes best-in-class processes.
2. Outline a process/plan to apply key success factors to the DoD supply-chain partnering initiative.
3. Identify the significant change management initiatives required.
4. Identify the biggest risk factors associated with implementation of the success factors and recommendations on how DoD can mitigate them.

Deliverables 3 and 4 required assessments of:

- DoD’s ability, given its market structure, to develop long term agreements with industry partners
- DoD core competencies related to the development of a life cycle management workforce (training of staff, writing and negotiating

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effective contracts, growing business and operational experience, balancing long term program manager tenure with career rotations)

Task Group Chairman: Mr. Herb Shear

Task Group Members: Mr. Dana Mead, Mr. Bob Hale

Task Group Sponsor: Ms. Diane Morales, Deputy Under Secretary of Defense (Logistics and Material Readiness)

Task Group DoD Liaison: Mr. Lou Kratz, Assistant Deputy Under Secretary of Defense (Logistics, Plans and Programs)

Task Group Executive Secretary: Mr. Ivan Thompson

PROCESS:

Early in its investigation of the topic, the Task Group decided to narrow the scope of its work to an evaluation of the Department's Performance-Based Logistics (PBL) initiatives. PBL is an effort by DoD to put greater responsibility for aftermarket support with industry partners. These initiatives, particularly as they relate to large equipment and systems support, have become common practice in the private sector and represent some of the most progressive thinking on the acquisition of major systems and equipment. PBL's early implementation in DoD is consistent with the QDR's strategic guidance on supply chain compression vis a vis major systems and commodities. Therefore, the Task Group agreed that this report's greatest value would lie in providing private sector PBL best practices to guide broader implementation of PBL throughout the Department.

Consistent with its focus on PBL, the Task Group decided to adjust the original terms of reference in order to divide the Group's efforts in two phases:

- 1) Recommendations on the feasibility of DoD developing long-term agreements with industry partners given its organizational and operational structure.
- 2) Recommendations on how to develop competencies in support of the development of a life cycle management workforce. Such competencies include the training of staff, writing and negotiating effective contracts, growing business and operational experience, and balancing long term program manager tenure with career rotations.

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The Task Group performed a detailed review of the PBL construct and of PBL projects that were in various stages of implementation across DoD. Interviews with the program manager and key staff of a PBL project, and the Defense Logistics Agency Commander were conducted. The Task Group also interviewed Defense Acquisition University (DAU) representatives to gain an understanding of the courses used to train Program Managers (PMs) and others in the Program Management Office (PMO).

Additionally, the Task Group held a brainstorming session with the Deputy Assistant Secretary of the Navy for Logistics, Office of the Under Secretary of Defense for Acquisition Technology and Logistics (OUSD(AT&L)), and Boeing's Director of Contracts & Pricing. In this session, the Task Group discussed the need to expand sources of training for those involved in writing, negotiating and managing PBL contracts beyond DAU courses and the core/non-core functions of the Program Management Office.

Specific reviews of the following items were conducted:

- PBL guidance from each of the Services as well as ongoing PBL projects
- DoD Inspector General audits of PBL projects
- Briefings on the Future Logistics Enterprise by Ms. Morales (OSD(LM&R))
- PBL-related materials from the DAU homepage
- PBL Course offerings available from DAU
- Organizational structure of several PMOs

These reviews revealed several potential areas of improvement to the way DoD (a) develops long term agreements (PBLs) with its industry partners, (b) develops its workforce's competencies in the areas of writing and negotiating, and managing PBL contracts, and (c) manages PM tenure, and the organizational structure of the PMO. The reviews also identified areas that are currently hindered by DoD policy or existing legislation.

The Task Group used these improvement areas as its basis for the development of a number of recommendations which could enhance the Department's implementation of PBL. These recommendations were vetted/presented in various forums attended by representatives from the Services, Office of the Secretary of Defense General Counsel, Office of the Under Secretary of Defense Comptroller (OUSD(C)), and Deputy Under Secretary of Defense for Logistics and Materiel Readiness (DUSD(LM&R)).

RECOMMENDATIONS

The Task Group developed 6 broad recommendations. Each recommendation seeks to strengthen DoD's ability to implement effective PBL:

1. Pursue PBL aggressively.

- Performance-based logistics is an industry best practice and a DoD best practice. DoD should consider using it for all its weapons, new and legacy, provided that it is supported by a business-case analysis.

2. Issue standard guidance.

- USD(AT&L) should issue guidance calling for the services to take a consistent approach to PBL. The guidance should mandate a Business Case Analysis (BCA). The BCA should determine whether PBL is an economical approach for a particular weapon system. It also should determine if PBL is applicable to the weapon system, including assessing the effects of PBL on deployability. The BCA may determine PBL is viable only for components of the weapon system.
- The guidance also should allow the PBL contractor to pick the consumable item manager (organic or private) that, consistent with industry practices, permits the prime vendor to select its subcontractors.

3. Reform program financial and contract management.

- Move toward a single manager. In their role as military COOs, combat commanders should retain authority over funding. However, once they have allocated funding for weapons using PBL, the funds should be executed by a single manager – presumably the weapon's program manager. Unitary control over execution provides greater accountability.
- Seek funding flexibility and multi-year authority. In industry, there is only one "color of money" (green). Government PBL managers need the flexibility to use various appropriations (e.g. procurement and operation and maintenance) interchangeably as needs demand. The best way to garner increased flexibility is to continue to ask Congress for substantial increases in the amount of money that can be reprogrammed among appropriations without Congressional approval.

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In industry, multi-year PBL contracts that span three to five years or more are the norm. The Administration should continue to ask Congress for authority to enter into multi-year contracts. To buttress their case for these requests in Congress, OUSD (AT&L) should take responsibility for preparing several case studies that demonstrate the importance of both reprogramming and multi-year authority.

4. Leverage the Defense Acquisition University (DAU) and other organizational knowledge/education to accelerate PBL implementation.

- Create a PBL ‘Center of Excellence’ at DAU. Build a database/repository of templates for Business Case Analyses (BCA), Statements of Work (SOW), some example contracts, “how-tos” related to funding issues, etc, all to prevent reinvention of the wheel across Services and to help drive standardization.
- Explore ways to partner with industry and capitalize on industry’s willingness to share lessons learned. Use Navy/Boeing Pax River joint contracting training as a benchmark.
- Create exportable teams in the Services at the Systems Command (NAVAIR, NAVICP)/Major Command level to augment/assist PM offices with BCA, SOW, contract development. These teams would specialize in contracting, logistics, finance, or perhaps be cross-functional, to address variable experience at each location in developing BCAs, SOW, contracts, working with Federal Acquisition Regulation Part 12, etc. The teams would provide rapid assistance and augment the program office (unlike an audit function). The teams should be composed to ensure consistency of results across locations visited. Finally, DAU “resident experts” could also be sent out on visits to PM offices along with these teams to augment the teams and to keep current on issues in the field.

5. Increase exposure to private sector practices.

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- Expand Air Force's "Education With Industry" beyond Air Force parameters This program is currently used primarily for Air Force company grade officers. It should be expanded to include other Services and civilians. Additionally, the program should be broadened to include more industry experiences that would benefit the logistics career field (current emphasis within the Air Force is believed to be primarily information technology industries).
- Leverage Defense Corporate Fellows Program to include supply chain assignments. Use a modified Defense Corporate Fellows program to expose DoD officials to industries with high PBL and logistics content (1 year tour, Professional Military Education credit, logistics industry focus, include case studies). The target audience should be senior O-5 and junior O-6 military personnel on track to become PMs. Also create an equivalent for civilian personnel grades GS-13, 14 on track to become PMs.

6. Change structure/culture of PM Offices

- Create a central "Log Provider" entity to coordinate all logistics activity for the PM. USD (AT&L) should consider the creation of a central "Log Provider" entity to coordinate all the logistics activity for the Program manager. CNF, a General Motors-owned joint venture supply chain entity, could provide a reasonable industry benchmark for this concept.
- Streamline Program Management Offices, based on the model of the F-117 and Future Combat System (FCS) PMOs. The Task Group received a brief by OSD AT&L on a model for streamlining the PMO. The successful streamlining of the F-117 and FCS were based on this model. The brief proposed that the following items be considered core: Program Management, Financial Management, Contracting, Testing and that industry had in increasing ability to provide the remaining key PMO functions (Engineering, Logistics, Configuration Management and Subcontract Management). The consensus of the Task Group was that the streamlining model needed to be pursued further by DoD. Additionally, the Task Group felt that DoD should develop a methodology based on the model to apply to existing and future Program Offices and that the model consider such things as the maturity of the program, impact to career field sustainment, etc.
- Review PM Offices for applicability of a civilian PM. Identify easy opportunities for conversion to a civilian PM by capability area. For

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example, the designation of a civilian PM in Combat Support, Command & Control, or IT might be more broadly accepted by the Services as it avoids conflicting with the bias for having a “warfighter” manage a major weapon systems.

- Specify tenure for Deputy PM for Logistics. Tenure should be equal to that of the PM and rotation cycles should provide for continuity in the program.
- Enforce congressional mandate to keep military PMs in place 4 years. The problems caused by frequent turnover could be exacerbated in a PBL environment based on the long-term relationship with a vendor. Frequent rotation results in knowledge loss (primarily in PM office) between program start and program fielding. Some systems are in development and test 10 years before its support phase. This could equate to about 4-5 PMs over the early lifecycle of a program. Recommend that Services be made to comply with legislation or convert PM to civilian.

Respectfully submitted,

Herb Shear

Attachments:

A. Final Report Presentation



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Supply Chain Support Task Group

Final Report
October 2003



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◆ Task Group

◆ Objectives

◆ Process

◆ Observations

◆ Recommendations

◆ Next Steps

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- Task Group Sponsor: Diane Morales, Deputy Under Secretary of Defense (Logistics and Material Readiness)
- Task Group DoD Liaison: Lou Kratz, Assistant Deputy Under Secretary of Defense (Logistics, Plans and Programs)
- Task Group Executive Secretary: Ivan Thompson



Task Group Terms of Reference:

Evaluate both private sector best practices and current DoD acquisition processes for Performance Based Logistics (PBL) and provide the following deliverables:

1. Key success factors that produce a highly effective supply chain partnering relationship.
2. Outline plan to apply factors to the DoD supply-chain partnering initiative.
3. Identification of significant change management initiatives required.
4. ID biggest risk factors associated with implementation of factors and how to mitigate them



- **Task Group decided the greatest return on investment would be gained by focusing on:**
 - DoD's ability, given its market structure, to develop long term agreements with industry partners
 - DoD core competencies related to the development of a life cycle management workforce
 - Training of staff, writing and negotiating effective contracts, growing business and operational experience, balancing long term program manager tenure with career rotations, organization structure



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◆ Task Group ◆ Objectives ◆ **Process** ◆ Observations ◆ Recommendations ◆ Next Steps

- Reviewed: Services' PBL guidance, ongoing PBL projects, DoD IG audits of PBL projects, briefings, etc.
- Conducted interviews with a PBL program manager and his key staff , Defense Logistics Agency Commander, etc.
- Defined key questions to be answered:
 - _ What are the key success factors of long term support agreements?
 - _ What are the barriers, risk factors associated with implementing these long term agreements?
 - _ What change management initiatives will be required?



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◆ Task Group ◆ Objectives ◆ Process ◆ Observations ◆ Recommendations ◆ Next Steps

- Conducted interviews with Defense Acquisition University (DAU) representatives to gain an understanding of the courses used to train Program Managers (PMs) and others in the Program Management Office (PMO)
- Reviewed the organizational structure of several PMOs
- Setup a brainstorming session with Dep Asst Sec of Navy for Logistics, AT&L, and Boeing Director of Contracts & Pricing to discuss:
 - The need to expand sources of training for those involved in writing, negotiating and managing PBL contracts beyond DAU courses
 - Core/non-core functions of the Program Management Office
- Developed preliminary findings and recommendations



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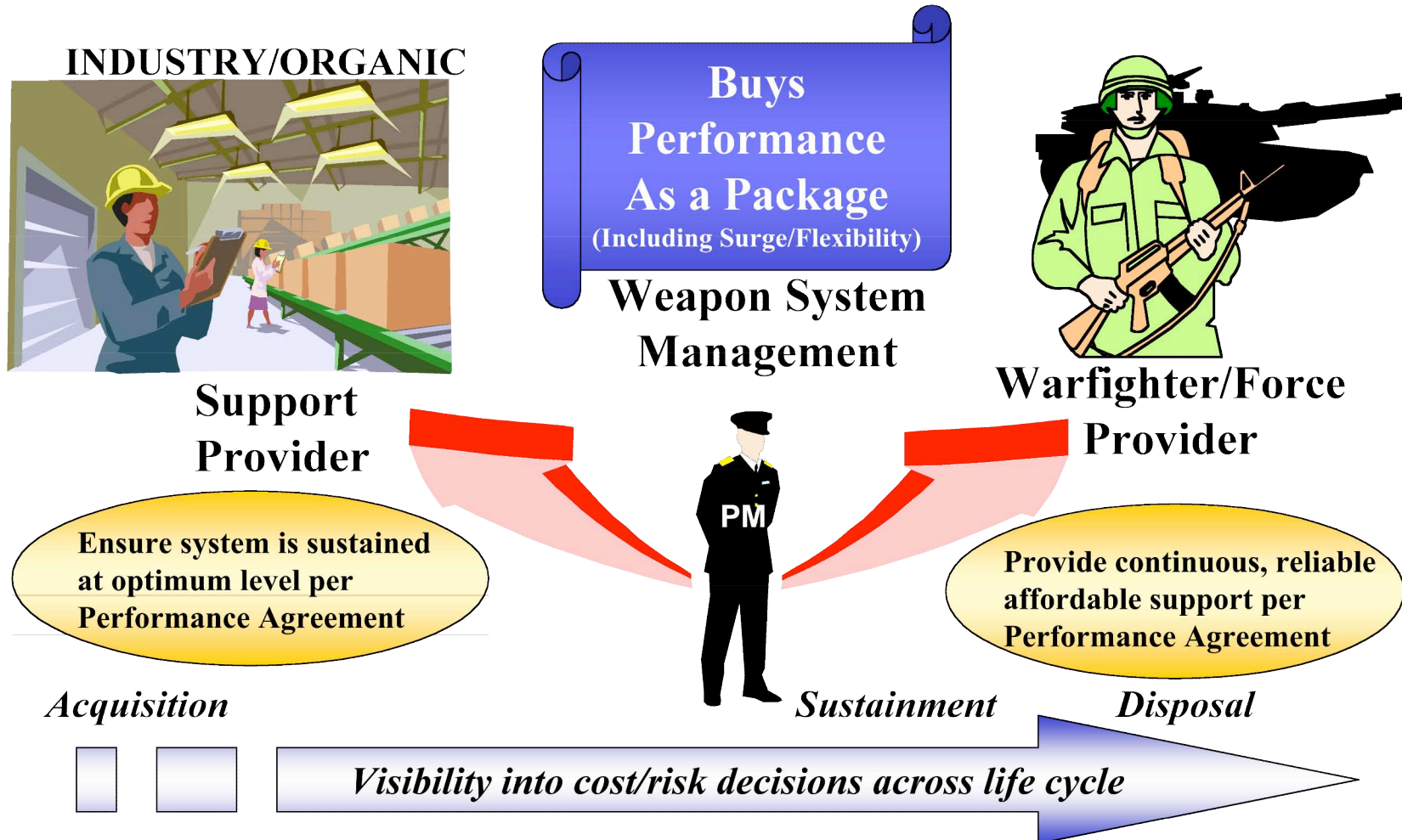
◆ Task Group ◆ Objectives ◆ Process ◆ Observations ◆ Recommendations ◆ Next Steps

- Identified the following items necessary to produce effective long-term support agreements:
 - _ Multi-year contract authority
 - _ Mitigation of risks on both sides (through type of contract)
 - _ Provision of incentives
 - _ Competition
 - _ One “color” of money (Green)
- Found that the PBL construct was based upon several of these best practices



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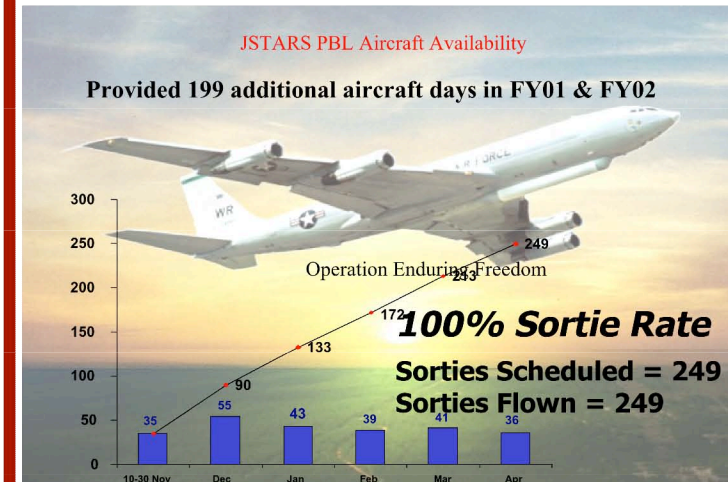
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Auxiliary Power Unit



Industry/Government partnership

Results

Units in repair from: 252, to: 0

98% shipped same day (was 60% prior to PBL)

92% delivered within 4 days worldwide

CWT reduced from: 35 days to: 5 days



- **Guidance**
 - _ Service-unique guidelines produce varying results
 - _ No “best in class” identified for PBL guidance or for the Business Case Analyses that support them
 - _ Inconsistency has contributed to problems with auditors
- **Consumable Item Management**
 - _ Hold harmless relief for maintenance depots but not for consumable item management entities
 - _ Consumable item management was moved out of Defense Logistics Agency (DLA) for JSTARS and was considered a key part of the JSTARS success



- **Contract Vehicle**

- New PBL programs are initiated concurrent with initial production
 - Typically involve cost-plus incentive fee contracts
- As programs mature, PBLs are converted to fixed-price incentive
 - Single year with out year options
 - Incentives tied to cost and delivery performance
 - Some employ ID/IQ
- Limited cost insight provided by fixed price contracts

- **Contract Length**

- Year to year budgeting complicates the contract length issue, and results in program instability



- **Competition**
 - _ Contracts are single source; negotiated
 - _ Economy of scale would have to be present to support broader competition
 - Contingent on Business Case Analysis (BCA)
- **Contract Funding**
 - _ Contracts funded by variety of funds
 - Research & Development
 - Production
 - Operations & Maintenance (O&M)
 - _ Program manager is constrained by diff. “colors of money”
 - _ PM cannot move funds within “their own line” without approval
 - _ Constraints are passed to industry through the contract



- **Funds appropriated annually**
 - _ Multiple appropriations
 - _ O&M funds distributed to multiple buckets
- **Full funding of termination liability for multi-year contracts**
 - _ Extremely difficult with O&M funds
- **Payment via progress payments on FPI contracts**
 - _ Limited relationship to output performance



- **Development of a life cycle management workforce**
 - The complexity of PBL, the general lack of business acumen/industry experience in the PMO necessitated more sources of training than just DAU courses
- **PM Tenure**
 - That the frequent rotation of the PM detracted from the goal of building effective long-term relationships between DoD and the partner/vendor
- **Organizational Structure**
 - That greater efficiencies were achievable in the PMO either by outsourcing non-core functions or by converting military slots (to include the PM) to civilian slots



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- ➡ (1) **Pursue Performance Based Logistics (PBL) aggressively.**
- ➡ (2) **Issue standard guidance.**
- (3) **Reform program financial and contract management:**
 - Move toward single manager of funds.
 - Seek funding flexibility.
 - Seek multiyear contracting authority.
- (4) **Leverage DAU and other organizational knowledge/education to accelerate PBL implementation.**
- (5) **Increase exposure to private sector practices:**
 - Expand “Education With Industry” beyond Air Force parameters.
 - Leverage Defense Corporate Fellows Program to include supply chain assignments.
- (6) **Change structure/culture of PM Offices:**
 - Streamline Program Management Offices, based on the model of the F-117 and Future Combat Systems (FCS) PMOs.
 - Review PM Offices for applicability of a civilian PM.
 - Specify tenure for Deputy PM for Logistics.
 - Enforce congressional mandate to keep military PMs in place 4 years.



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